

A Place to Live is the Place to Start

**A Statement of Principles
for Changing HUD to Meet
America's Housing and
Community Priorities**

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THE WHITE HOUSE

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The American people want and deserve a federal government that works for them, one that helps people to improve their daily lives. But the proliferation of programs, complex regulations, and cumbersome bureaucratic procedures too often have stymied local innovation and limited the ability of communities to solve their own problems.

Economically distressed communities across our nation still need federal help to ensure that all Americans can find decent, affordable housing in safe, clean neighborhoods. Communities throughout America still need federal resources -- which they can match with their own public and private resources -- to spur business development and job growth and to help people find jobs in our rapidly changing economy. The Department of Housing and Urban Development is uniquely suited to provide this assistance. HUD is the only federal agency that focuses on the housing and economic development needs of our large and small urban neighborhoods and particularly on the needs of low-income working families and the very poor.

But for HUD to serve our communities the way the American people expect it to, it must change. Secretary Henry Cisneros has accepted this challenge and is transforming HUD into an effective working partner with people and communities. He is changing the way HUD works with the private sector and all levels of government, cutting red tape, reducing costs, and making the Department truly responsive to the needs of local communities.

Together, Secretary Cisneros and I have made a commitment to bring revolutionary change to HUD, and this document describes our vision of a new, entrepreneurial Department. But this is more than a vision statement. It is a plan for action. This report sets out the definitive steps that will transform HUD into a strong and vital partner of the American people.

Bill Clinton

This is a statement of principles which will be followed by legislative proposals. The purpose of this report is to explain how HUD's priorities will be sustained by the proposed reinvention of the Department.

Table of Contents

A Message From The Secretary	i
Accelerating HUD's Reinvention	1
Priorities	13
Strengthening Competitive Cities	14
Revitalizing Neighborhoods	16
Expanding Homeownership	18
Expanding Affordable Rental Opportunity	20
Reducing Homelessness	22
Transforming Public Housing	24
Opening Housing Markets	26
Managing for Performance and Results	28

A Message From The Secretary

Thirty years ago, Congress created the U.S. Department of Housing and Urban Development because it recognized that many communities needed federal help. In the intervening decades, millions of Americans have benefited from HUD programs.

- The Federal Housing Administration, a vital part of HUD, has insured new mortgages and refinanced loans for 23 million homeowners.
- Approximately 7.3 million people have lived in public housing supported by HUD subsidies.
- Nearly 12.5 million households -- including millions of senior citizens and people with disabilities -- have lived in privately owned, federally assisted multi-family rental housing developments.
- About 6.5 million households have used Section 8 certificates and vouchers to obtain affordable rental housing on the open market. HUD provided financial assistance to rehabilitate 1.6 million owner-occupied homes and 750,000 apartments for low- and moderate-income Americans.
- More than 70,000 units of housing for Native Americans have been built and another 10,000 units are in development.

Yet, the Department must shake off old ways of doing business.

President Clinton has proposed dramatic changes which will radically alter the way the U.S. Department of Housing and Urban Development serves America's communities. I believe strongly that these changes will result in an agency that is fully responsive to local needs and supportive of local efforts to help people improve their own lives.

This report, *"A Place to Live is the Place to Start: A Statement of Principles for Changing HUD to Meet America's Housing and Community Priorities,"* is intended to answer three questions:

- How is the Department of Housing and Urban Development changing to meet the needs of America's communities?
- What will these changes mean for the priorities the Administration has already set for HUD?
- How will HUD conduct its ongoing business as it transforms itself into a leaner organization whose job is to support rather than prescribe?

HUD has a vital mission to perform: making America's communities better places to live by supporting local efforts to expand affordable housing, homeownership and job opportunities. Congress established HUD to consolidate federal housing and urban development efforts in one department to sharpen their focus, maximize their impact and strengthen the creative, cooperative relationships between the federal and state and local governments that are vital to real change in local communities.

Today, there are those who call for the dismantling of HUD. But that would be a tragic mistake. There are tasks which no other federal department undertakes which would be endangered if HUD were dismantled and its various functions spun off to other agencies:

- Asserting and strengthening the role of cities and greater metropolitan areas in the national economy;
- Advocating for the housing sector, an industry that is vital to the nation's economy and financial health;
- Making affordable rental housing and homeownership serve as the starting point for families striving toward self-sufficiency;
- Providing federal dollars to leverage private resources and to engage business and nonprofit organizations in local initiatives for change;
- Helping meet the housing needs of our nation's poorest and most vulnerable people, such as the homeless, frail elderly and the disabled; and
- Protecting Americans' rights to fair housing and equal opportunity, as guaranteed by law and the Constitution.

When all these goals are pursued by a single agency like HUD, with its unique perspective and mission, the whole literally becomes greater than the sum of its parts.

To carry out its vital mission, HUD must change the way it does business. When I came to HUD two years ago, I found an organization more interested in bureaucratic process than results, slavishly loyal to non-performing programs, and distrustful of creative initiatives by local community leaders. Clearly, HUD could not continue doing business "as usual."

With President Clinton's strong support, with the support of thousands of dedicated HUD employees and in collaboration with union partners, the Administration has been working hard since 1993 to turn HUD around.

Step by step, we have been transforming HUD into a customer-oriented, performance-driven organization that is more responsive to local needs.

Our ongoing efforts to change HUD have been driven by key priorities:

- Strengthening competitive cities;
- Revitalizing neighborhoods;
- Expanding homeownership;
- Expanding affordable rental opportunity;
- Reducing homelessness;
- Transforming public housing;
- Opening housing markets; and
- Managing for performance and results.

These priorities will gain new primacy under President Clinton's three components of reinvention.

First, under the President's proposals, 60 major HUD operational programs will be consolidated into three performance-based funds by 1998. One of the funds would consolidate HUD programs for community economic development into a single Community Opportunity Fund. The other two funds would be devoted to carrying out HUD's historical low-income and affordable housing missions -- one by funding portable rental assistance to enable recipients to obtain decent housing in the private market, and the other by funding local and state initiatives to expand the supply of affordable housing.

Second, the President has proposed fundamentally changing the nature of federal subsidies to public housing authorities. Public housing residents would receive portable rental certificates wherever practicable, permitting them to seek better housing elsewhere. This would force housing authorities to compete with private landlords for subsidized and unsubsidized tenants. Tenant-based rental assistance would be governed by a pricing system that pegs assistance to the local cost of decent housing.

Third, President Clinton has proposed to turn the Federal Housing Administration, which has insured home loans for millions of working families, into a government-owned corporation which will run more like a modern insurance company than a bureaucracy.

These changes will give local communities maximum flexibility to combine federal resources with their own public and private resources to support local initiatives that make a real difference in people's lives. The changes will put tangible results firmly ahead of bureaucratic process both at HUD and in communities from coast to coast and border to border. The changes will enable HUD to truly fulfill the mission set for the Department 30 years ago when it was charged to ensure that every family in America can live in dignity in a decent home, in a neighborhood full of pride, a community replete with opportunity and a city burgeoning with promise and hope.

There is no doubt about the need to strengthen America's communities today. Thousands of communities, and millions of people across America rely on HUD's help and HUD must do better by them. As President Clinton has told us repeatedly: "We can do better." With enactment of the President's proposals, we will.

Henry Cisneros



Accelerating HUD's Reinvention

Accelerating HUD's Reinvention

The overhaul of the U.S. Department of Housing and Urban Development begun in January 1993 must be accelerated, and reinvention must be expanded, for HUD to achieve its mission.

Principles of Reinvention

Our proposed changes share a set of common-sense principles:

Low- and moderate-income families should have greater power to make decisions about their lives, and government should support their quest for self-sufficiency.

Public and assisted-housing rules have locked families into substandard housing, impeded their ability to lift themselves to better lives, and allowed badly managed agencies and absentee owners to operate with impunity. Federal policy must serve people, not institutions.

Decision makers at the neighborhood, local and state levels should have maximum flexibility.

Local leaders know best how to set and achieve community development and housing goals. In recent years, local capacity to solve problems has grown as state and local government, private industry, nonprofit organizations and community-based groups throughout the nation have formed creative partnerships to promote affordable housing and economic growth. Federal policies must support local effort and encourage full engagement of local public and private resources.

The very character of HUD must change if the reinvention of policies and programs is to succeed.

Traditional federal solutions have been top-down, bureaucratic, complex and overly prescriptive. The federal government must become a true partner for change in communities, facilitating rather than prescribing. HUD must act primarily as a clearinghouse for innovative solutions, sharing information with funding recipients about new models of housing finance, and providing technical support to government, community-based groups and others.

The federal government has a necessary role to play in upholding Americans' fundamental Constitutional and legal rights.

Protection of Americans' civil rights in places where local community practices and politics have permitted housing discrimination is a prime example of the need for continued federal leadership. Racial minorities, people with disabilities and families with children have all been

victims of discrimination at the local level. There are times when the federal government must step in as the ultimate guarantor of fairness and due process, and when local officials must rely on the clarity of federal standards and the certainty of enforcement to move a community to follow a just course.

One of the greatest challenges to America's urban future is the persistent concentration and isolation of poor people and minorities in the central cities of our greater metropolitan areas.

Meeting this challenge requires serious efforts to increase housing choice for the working poor. Barriers to mobility must be eliminated, and metropolitan and regional coalitions must be engaged in fair housing, employment and education strategies. There is no scenario in which the nation's cities can be revitalized without real dedication to resolving these issues. And transcending the fate of our cities, our national ideal of racial harmony in a civil society requires us to redouble our efforts to reverse housing patterns which divide Americans by race, income and class.

Overview of HUD's Reinvention Plan

Our plan for completing the reinvention of HUD has three components:

Consolidate programs and move to performance-based funding

Reinvention would consolidate HUD's 60 programs into three flexible, performance-based funds: Housing Certificates for Families and Individuals; the Affordable Housing Fund; and the Community Opportunity Fund. These funds would give mayors and governors the flexibility to develop local demand and supply-side housing and community investment strategies that, by their nature, vary from jurisdiction to jurisdiction and change from year to year.

Reinvention would be an exercise of responsible devolution. Localities and states would be required to design and implement plans that are consistent with national objectives (e.g. income targeting, fair housing, community-based participation, attention to special populations). Localities and states would also be held accountable for their actions; performance measures would be used to help both communities and the federal government

evaluate recipients on their real progress in meeting community investment and housing needs.

Transform public housing

Reinvention would end the current public housing system, which simply has not worked for too many people or communities, especially in some of our larger metropolitan areas. HUD would convert operating subsidies in unsatisfactory public housing projects to rental assistance for residents, who would be free to choose to stay where they are or seek housing in the private rental market. Public housing agencies would then be compelled to compete in the marketplace for low-income residents. Well-run agencies would survive because they can compete with private, nonprofit organizations. Poorly run agencies would go out of business.

Create an entrepreneurial, government-owned FHA corporation

Reinvention would transform the Federal Housing Administration into a government-owned corporation, thereby enhancing the ability of the public and private sectors to expand homeownership opportunities and affordable rental housing for millions of Americans. The new FHA would become a model of a government that is streamlined, downsized, entrepreneurial and accountable -- using public private partnerships and market mechanisms to achieve its public purposes.

I. Program Consolidation and Performance-Based Funding

HUD's three flexible, performance-based funds would include:

Housing Certificates for Families and Individuals to provide housing assistance for rental and homeownership opportunities. All current public housing, assisted housing and Section 8 rental assistance programs would be combined into a single housing-assistance fund administered by local and state governments, which would issue housing certificates to low-income people. This assistance, based on local rental housing costs, would become a principal means for meeting the housing needs of low-income families and individuals, who would have a genuine housing choice: the power to move.

Local and state governments, with a premium on metropolitan strategies, would allocate these flexible, portable Housing Certificates to low-income families and holders and managers of affordable housing to the discipline of the marketplace. The Certificates would, thereby, enable the federal government to intervene on the demand side of the low-income housing market -- as distinct from supporting the production of affordable housing units.

The current public and assisted housing system of tying subsidies to units rather than people would be phased out over the next three years. Like current recipients of federal rental assistance, residents in public and assisted housing would ultimately be allowed to move to apartments of their own choice. Federal support for standard apartments would cease as residents are permitted -- for the first time in 60 years -- to make their own, informed housing choices.

Affordable Housing Fund to support development and rehabilitation of affordable housing. All current HUD grant programs for housing production and rehabilitation, including HOME, housing for the elderly and persons with disabilities, housing counseling and the National Homeownership Fund, would be consolidated into a single fund to provide localities and states with flexible, formula grants for acquisition, rehabilitation and construction of affordable housing and for homeownership efforts that help stabilize distressed communities. This consolidation would replace existing, multiple affordable housing programs -- with their separate requirements, applications, formulas and monitoring -- with a single source of funds, with simple rules and criteria for use. Resource allocation under the Affordable Housing Fund would be the same as under the HOME program: 60 percent for localities and 40 percent for states.

The focus on the development side of affordable housing is particularly important because of the lack of sufficient affordable housing supply in many jurisdictions and the expertise of private actors (e.g. nonprofits, community-based organizations, developers) in this area.

The new Affordable Housing Fund would provide formula grants to local and state governments, with a national set-aside for Native Americans. The allocation split between localities and states would be the same as under the HOME program, 60 percent for localities, 40 percent for states. Jurisdictions would be permitted to use the federal grants for a wide range of activities, including:

- housing acquisition, rehabilitation and construction of affordable housing, particularly housing for special populations; and
- homeownership efforts that draw moderate-income families back to or help stabilize distressed communities.

The extent to which local and state jurisdictions would be required to match federal funding, as in HOME and other HUD programs, would be a subject for legislative discussion.

To ensure strong participation by community-based organizations, set-asides for entities such as the community housing development organizations ("CHDOs") recognized under existing law would continue.

Community Opportunity Fund to stimulate community economic revitalization. Current HUD grants for community economic development including Community Development Block Grants (CDBG) and Economic Development Initiative (EDI) grants would be consolidated into a single fund to provide flexible help allowing local and state governments to meet the most critical economic and revitalization needs of distressed communities, with a national set-aside for Native Americans. The allocation split between localities and states would be the same as under the CDBG program: 70 percent for localities and 30 percent for states.

Jurisdictions would be permitted to use the federal grants for a wide range of activities, including:

- Assistance to community-based organizations for neighborhood revitalization efforts;
- Business loans to entrepreneurs to build supermarkets or commercial centers in distressed areas;
- “Mobility to work” efforts that link residents in distressed communities with job opportunities elsewhere in the metropolitan area; and
- Environmental cleanup of “brownfield sites” to prepare for economic or housing development.

To achieve maximum leveraging, a loan guarantee mechanism would be made available to localities and states along the lines of the existing Section 108 program.

As with the other two Funds, a strong framework for results-oriented accountability would be established.

Five percent of funds for this consolidated program would be set aside to reward metropolitan areas that develop integrated economic development strategies.

From fiscal year 1996 to 1997, CDBG and EDI would be immediately consolidated into the new Community Opportunity Fund.

National standards. The new, performance-based funding will give localities and states greater flexibility to pursue their own solutions, in exchange for compliance with certain national standards. HUD has identified the following conditions which would apply to local use of the consolidated funds:

- Adherence to income targeting rules;
- Compliance with federal fair housing laws;
- Attention to vulnerable populations, including the homeless, disabled, people with HIV/AIDS and the frail elderly;

- Emphasis on transitions to economic independence and homeownership in the design and implementation of programs; and
- Participation by community-based organizations.

HUD administration of the new performance-based funds would be further shaped by the following standards:

Local strategies. Local and state strategic plans for housing and community development would need to be devised before federal funds would be disbursed. These plans would spell out how localities and states would use federal funds to meet the housing needs of moderate-low-, and very-low-income people and spur business development and job growth in underserved communities, while adhering to specific funding conditions.

Accountability. Fund recipients would be held accountable for results by being evaluated on a series of nationally and locally defined performance measures. Recent leadership by state and local officials in Oregon and other jurisdictions on performance measures holds great promise for a results-oriented working partnership.

Performance bonuses and sanctions. Success or failure would have real consequences for recipients of federal funds. Superior performers, for example, would have access under each fund to a 10 percent bonus pool and would be permitted to “flex” resources between different funds, as is currently allowed under highway and transit programs. Low performers would not be eligible for any performance bonus or flexibility and, at the extreme, could have funding reduced and reallocated to other recipients.

Transition rules. Transition rules would allow for the orderly transfer of administrative responsibilities as well as ensure the continued emphasis on service-enriched housing for special populations.

Transitions:

Consolidation of HUD programs into performance-based funds will occur in two phases. In FY 1996, 60 separately funded HUD programs will be consolidated into eight funds for public housing capital development and operating subsidies, individual housing assistance, assisted housing, community development, affordable housing development, homeless assistance and housing for persons with AIDS. [Exhibit A]

Consolidation will be completed in FY 1998, with the merger of eight funds into three -- Housing Certificates for Families and Individuals, and the Community Opportunity Fund.

4

II. Transforming Public Housing

Public housing, which began 60 years ago as transitional housing for working people who had fallen on hard times, has too often become a trap for the poorest of the poor rather than a launching pad for families trying to improve their lives. While public housing has worked in many communities, the rigidly bureaucratic, top-down, command-and-control public housing management system that has evolved over the years has left tens of thousands of people living in squalid conditions at a very high cost in wasted lives and federal dollars.

Our new approach to housing assistance for families and individuals has the following components:

- Give residents maximum market choice in the search for affordable housing, particularly in underperforming projects.

Operating and capital subsidies for housing authorities would be converted to fair market rent-based Housing Certificates for Families and Individuals.

- Break the monopoly of housing authorities over federal housing resources.

HUD would require housing authorities to compete in the marketplace for low-income residents with other providers of affordable housing.

- Support families that are working to achieve self-sufficiency.

In the new Housing Certificate program, in addition to giving traditional preferences to seniors and the disabled, HUD will give greater preference to families who are working or are participating in “work-ready” and education programs.

- Change the landscape of distressed inner-city neighborhoods.

HUD would accelerate the demolition of uninhabitable and nonviable public housing projects. HUD would also end support for construction of “public housing” developments that are exclusively occupied by the very poor.

Transitions:

In FY 1996-1997, in the first of two transition phases, all public housing programs would be consolidated into two accounts for capital expenditures and operating subsidies. Funds would continue to support the formation and operation of resident councils. [Exhibit B]

A performance-based system would be instituted through deregulation of more than 3,000 well-performing public housing authorities (PHAs) and partnerships with state and local officials to improve the operations of more than 100 troubled PHAs. These PHA's would be on probation. Those that could not be restored would be moved through a two-year process divesting them of properties and management control.

Tens of thousands of severely deteriorated housing units would be demolished and replaced by vouchers where appropriate and/or small-scale, scattered-site housing. Public housing rules would be changed to make work pay for residents, give greater preference to working families and people in “work ready” and education programs, and speed evictions of disruptive residents.

In the second phase, all direct capital and operating subsidies to PHAs would cease, with subsidy funds being converted to rent certificates to the maximum extent practicable.

These two steps, completing the transition, would be accomplished by FY 1998.

The Transformation of Public Housing

<i>Current System</i>	<i>FY 1996-1997</i>	<i>FY 1998 and Beyond</i>
Duplicative programs and funding streams	Consolidate all programs into 2 accounts	All public housing capital and operating subsidies would be converted to rental certificates
Separate programs for development, modernization, operating subsidies, anti-crime efforts and child care activities	Combine all Public and Indian Housing programs into Public Housing Capital Fund and Public Housing Operating Subsidies	Residents would have more options to seek apartments of their own choice
HUD micromanages 3,400 public housing authorities	Move to performance-based system	Public housing authorities would not receive direct funding from HUD. Authorities would compete for low-income families in a certificate system
Byzantine system of law, regulation and practice	Deregulate over 3,000 well-performing PHAs	
Dozens of handbooks guide every conceivable activity of housing authorities	Partner with state and local officials to improve the operations of more than 100 troubled PHAs	
Law inhibits demolition of worst developments	Change the landscape of distressed inner city neighborhoods	
Housing authorities cannot use modernization funding to demolish and replace non-viable projects	Demolish tens of thousands of severely deteriorated units	
Law requires one-for-one replacement of all public housing units, even units that have been vacant for years	Support the development of replacement housing that is small scale, economically integrated and architecturally attractive	
Public housing traps families in dependency	Support families that are working to achieve self-sufficiency	
Rent rules discourage work	Change rent rules to make work pay	
Admission rules do not reward work	Give greater preference to families who are working or are participating in "work ready" and education programs	
Grievance procedures delay and prevent evictions	Repeal administrative grievance procedures to speed evictions of disruptive residents	

III. A New, Entrepreneurial FHA

HUD plays an important role in providing housing opportunities for people whom the private market cannot serve on its own. Working Americans, minorities, and immigrants struggling to provide decent homes for their families, as well as the poor, elderly, and those with special needs, have relied on HUD programs. Since its inception 60 years ago, HUD's Federal Housing Administration (FHA) has used the unmatched credit of the federal government to help private enterprise and nonprofits provide decent, affordable housing to 23 million American homeowners and at least 4.5 million renters.

In the last decade, the private housing finance market grew far more sophisticated and efficient at delivering capital to housing, but FHA -- once an effective market leader -- lagged behind. At the same time, fewer and fewer young American families were able to afford their own homes, and the gap between rents and what people could afford to pay grew in many parts of the country.

Between 1980 and 1992, the homeownership rate for young families -- headed by people under age 35 -- fell from 44.5 percent to 37.6 percent. During a comparable period, from 1978 to 1991, the number of families with children and elderly people paying more than half their incomes for rent, or living in severely inadequate rental housing, grew 50 percent, from 2.4 million to 3.6 million households. Most of the affected households were families with children, who were saddled with rising rent burdens.

President Clinton recently charged HUD with developing an unprecedented public-private partnership to help a record number of families achieve the dream of homeownership by the year 2000. To achieve this goal, HUD and its private-sector partners must make homeownership affordable for more first-time homebuyers, residents of inner cities, and other groups and communities currently underserved by the private market.

FHA has a vital role to play in this effort. But to operate effectively, it must change dramatically, relying more on market incentives and private-sector partners to boost housing production and expand homeownership. At the same time, to serve the national goal of expanding homeownership to underserved groups and communities, it must remain a public-sector institution.

The Argument for Continued Public Ownership of FHA

Today, FHA insures loans to families and communities that private mortgage insurers cannot and will not ensure on their own. When private insurers pull out of a market, FHA remains and becomes the principal source of mort-

gage insurance for borrowers there. FHA can do this because it is publicly owned. Public ownership confers important advantages on FHA -- most importantly, lower capital costs which reduce the cost of doing business. FHA's reduced costs enable it to ensure loans -- at little or no cost to the taxpayer -- that would be unprofitable for a private-sector insurer.

If FHA were privately owned, as some have proposed, this flexibility would be lost. A private FHA doing the same business as today would need to set aside greater reserves, borrow funds at higher cost, pay taxes and return profits to shareholders. The consequences for potential homebuyers and current homeowners would be stark:

- *Higher premiums* -- To serve the same borrowers profitably, a private FHA would have to charge higher premiums, which would make homeownership unaffordable for many current FHA borrowers. For others, housing costs would consume a higher percentage of income.
- *Higher interest rates* -- If lenders seek to do some of the same business they do today with FHA, but cannot obtain insurance covering the risk that FHA now insures, lenders may increase interest rates to compensate for greater perceived risk, and that could put the cost of homeownership beyond the reach of more Americans.
- *Fewer homeownership options* -- Ultimately, a private FHA would mirror the decisions of today's private mortgage insurers (PMI's). Despite the recent introduction of pilot programs requiring only a three-percent down payment, today's PMIs simply do not serve many of the first-time homebuyers, low- and moderate-income working families, minorities, and central city residents that FHA insures.
- *Greater risk of home-value loss* -- During regional downturns, such as the one suffered by the oilpatch states in the 1980s, PMI's leave the market. Without some capital to finance home sales, home values would plummet further, wiping out people's equity in their homes and exacerbating local economic problems. A publicly owned FHA can continue to insure new mortgages in depressed markets, thereby bolstering demand, steadying home values and preserving homeowners' equity and personal borrowing power. A privately owned FHA would abandon these markets.

Managers of privately owned enterprises have a fiduciary duty to their shareholders to maximize return on investment. When profit maximization and public purposes conflict, private owners must -- by law -- focus on their

shareholders' interests. In the complex world of mortgage finance, where all other players are stockholder-controlled, there is a need for a national player like FHA with purely public purposes, because homeownership is a vital national objective.

Americans agree that expanding homeownership is an important public goal because homeownership strengthens families and communities. FHA serves this goal -- by making capital available for housing needs which the private sector does not and cannot serve on its own. FHA must continue to serve this goal, and for this reason, must remain publicly owned. But in order to better serve the public purposes for which it was established, FHA must change the way it does business.

The New FHA Corporation

HUD's reinvention of FHA would transform a slow-moving government bureaucracy into a government-owned, streamlined, market-driven enterprise which would use federal credit enhancement to finance expanded homeownership opportunities and the development of affordable rental housing. Continued HUD oversight would ensure that the new FHA corporation would provide state and local governments and community-based housing providers with an effective credit enhancement tool to leverage demand-side subsidies available through Housing Certificates For Families and Individuals, supply-side subsidies from the Affordable Housing Fund and the Community Opportunity Fund.

The new FHA corporation would consolidate FHA's existing insurance programs into single-family and multifamily broad insurance authorities.

The new FHA would rely increasingly on partnerships with well-capitalized, sophisticated financial institutions, including Fannie Mae and Freddie Mac, the Federal Home Loan Banks, private mortgage insurance companies, state and local housing finance agencies, and community-based organizations, to design a variety of products that meet market needs. This new partnership will ensure that FHA insurance and credit enhancement is delivered as efficiently and effectively as possible.

FHA's performance will be judged by the effectiveness of its products in serving diverse needs not otherwise being met in the market place. These new risk-sharing partnerships would allow FHA to develop innovative products to meet unique community needs.

Partnerships would include risk sharing, reinsurance, pool loan insurance and other forms of credit enhancement. However, essential current products and delivery systems would be retained to ensure that all markets are served.

Operational changes to reduce costs, losses and streamlined processing will dramatically improve the health of the single-family insurance program.

A new FHA would be authorized to design and price its own products, subject to its ability to meet performance goals measuring social outcomes and impact, budget needs and financial performance.

Transitions:

In FY 1996 and FY 1998, FHA's existing programs will be consolidated into two: single-family insurance and multifamily insurance. The multifamily portfolio will be restructured. A new FHA corporate charter will be implemented. [Exhibit C]

In FY 1998 and FY 1999, the FHA corporation will complete restructuring of 80 percent of its multifamily portfolio, shift an increasing share of its new, single-family product origination to "wholesale" partnerships, and originate more multifamily product through similar partnerships.

FHA's portfolio restructuring will be completed by FY 2000. In subsequent years, FHA's single-family and multifamily products and partnerships will be continually reassessed to insure they remain relevant to the marketplace and the nation's unmet housing needs and safety and soundness goals.

Transition to a New FHA Corporation

FY 1996 - FY 1997

Consolidation of Programs

- Single family insurance
- Multifamily insurance
- Multifamily portfolio restructuring

New Charter for FHA Implementation Activities

- Appointment by President and Senate confirmation of Administrator
- Appointment by President of Advisory Council members
- Identification of employees to be transferred to new corporation
- Development of "business-type" budgets
- Development of personnel and procurement systems
- Establishment and capitalization of a single new insurance fund
- Establishment by the Secretary of personnel and procurement systems
- Delivery of report to Congress (at end of fiscal year) on performance against goals

Single Family Insurance

- Creation of centralized underwriting and processing centers
- 20% of new origination business would be done "wholesale" through new risk-sharing partnerships
- Sale of existing note inventory and contracting out servicing for remainder
- Property disposition activities transferred to private sector partners

Multifamily Insurance

- Origination activity consolidated into a few offices
- A growing proportion of new business would be done "wholesale" through new risk-sharing partnerships
- Revisions to underwriting standards, loan terms and products
- Traditional origination activity processes re-engineered
- Capacity developed to oversee partners, market products to potential partners and housing providers, and identify market gaps

Multifamily Portfolio Restructuring

- Development of pilots for restructuring
- Begin property-by-property assessment
- Implementation of portfolio restructuring for 40% of portfolio

FY 1998 - FY 1999

FHA Corporation Continues Activities Launched in FY 1996

- Complete restructuring of 80% of multifamily portfolio
- Origination of 40% of new single family product through "wholesale" partnerships
- Origination of more of new multifamily product through "wholesale" partnerships

FY 2000 and Beyond

Portfolio Restructuring Completed

- Single family and multifamily products and partnerships periodically reassessed for relevance to marketplace, unmet needs and contribution to meeting safety and soundness goals

The Need for Reinvented Housing Assistance

HUD's paramount task is to ensure that all Americans have access to decent, affordable housing. The Department must seek the most effective avenue to accomplish this task, based on a clear understanding of the real causes of housing problems in America, and without regard to vested interests in existing and potentially outmoded programs.

The Department believes and national data confirm that the overwhelming cause of severe housing problems is lagging household incomes and high housing costs, rather than broad-based housing shortages. For example, more than 90 percent of the 5.4 million very-low income renters with congressionally defined "worst case housing needs" do not receive federal housing aid and currently spend more than half their meager incomes for rent. Some 78 percent of these renters live in decent, uncrowded housing. Excessive rent relative to their income is their sole housing problem. Tenant-based assistance could relieve their problems, without new housing units being built.

This view is supported by the Heritage Foundation, which stated in a 1989 report, *Mandate for Leadership III: Policy Strategies for the 1990s*:

The problem of the poor is not the unavailability of housing, but a lack of sufficient funds to pay for quality housing. Vouchers give the poor the funds that make this private housing affordable.

Nevertheless, housing market conditions vary significantly across the country. Although many markets have an ample supply of affordable units, shortages of units affordable to the very poor are common. Most markets also lack an adequate supply of affordable rental units for larger families with children. In some very tight markets, particularly in California and Northeastern metropolitan areas, more widespread shortages of affordable housing are evident. Because of the persistence of localized or special housing shortages, HUD's housing assistance reinvention strategy contains both demand- and supply-side components, though with more emphasis on the former than the latter.

For the Department's intentions to be fully understood, all elements of the reinvention plan must be taken into consideration.

Underlying Premises

The Department's reinvention strategy is based on seven premises:

1. HUD rental assistance should provide household choice and opportunities for mobility to the maximum extent practicable.

2. When the responsibility for administering low-income rental assistance is devolved to localities and states, certificates will continue to be pegged to the local costs of decent rental housing and vary from market to market.
3. Requiring owners and operators of HUD-subsidized housing to compete for residents -- with and without subsidies -- will make them more responsive to resident demands for quality and performance.
4. The large majority of public housing authorities can become capable of competing for low-income tenants in a deregulated market.
5. Where public housing developments, especially in large cities, are in such poor condition that they could not successfully compete for tenants if the operating subsidies they receive were to be converted to portable, tenant-based rental assistance, housing authorities and private investors can be given an opportunity to improve the condition of as much of this stock as is financially feasible prior to the separation of the subsidy from the unit.

This is why HUD's reinvention plan calls for a transition period during which owners and managers will adjust to a competitive market environment while investing in the physical improvement of their poorest quality stock.

6. Budget realities make it impossible to preserve every public and assisted housing unit, regardless of quality or cost. Absent reinvention, budget constraints would require some losses from the project-based inventory. HUD will propose modifications to the one-for-one replacement provisions of current public housing law which has prevented housing authorities from demolishing obsolete and uninhabitable housing for lack of funds to replace them. The Department also will recommend dramatic changes in the preservation program which has provided windfall gains to owners of assisted housing who are eligible to prepay their FHA mortgages and cancel their subsidy contracts. With the devolution of administrative responsibilities for rental assistance to localities and states, these same budget realities will permit decisions about which housing can be feasibly maintained as part of a local affordable housing inventory to be made at the local level, where they should be made.
7. An orderly transition period is also required to give owners and managers of assisted housing time to adjust to the discipline of market-based budgeting and the concept of financial feasibility in contrast to the present practice of needs-based budgeting. Those housing authorities and owner entities that

cannot make the successful transition to a competitive market environment should be replaced.

Components of the New Housing Assistance

HUD's reinvention plan for housing assistance has four elements:

1. *Issuing housing certificates for families and individuals.* Tenant-based assistance will be provided to income-eligible households at subsidy levels that are pegged to the costs of decent rental housing in the recipients' local market. All tenant-based rental assistance will be pegged to a local fair market rent system.
2. *Ending the direct funding of public housing authorities to the maximum extent practicable.* At the end of a three-year transition period, federal funding of public housing operating subsidies will be converted to rental assistance that residents can use to move to better housing.
3. *Restructuring the financing of the assisted inventory.* Over time, privately owned, HUD-assisted rental housing will also be converted from project-based subsidies to portable tenant-based assistance. Despite the loss of project-based assistance, most of this stock will remain an integral part of local affordable housing inventories through the process of "marking-to-market." This means that the FHA-insured mortgages on these properties will be reduced to levels that can be supported by modest rents that in most cases will be no higher than prevailing Section 8 fair market rents. In some cases, continued use restrictions will be part of the debt restructuring process. In general, this means that current low-income residents who receive rental certificates when project-based assistance is terminated will be able to remain in place if they choose, or they will be able to take their certificates and move to better housing. With their debt having been restructured by FHA, owners of these projects will be able to attract other low-income certificate holders or unsubsidized tenants who can afford to pay market rents. By virtue of the marking-to-market process, HUD expects to be able to preserve the overwhelming proportion of the existing inventory of 3.1 million low-income subsidized housing in low-income use for many years to come.
4. *Providing more flexibility for localities and states.* The new Affordable Housing Fund (AHF) will provide localities and states with more flexible funding to enable them to expand affordable housing supplies. Capital from the AHF can be used to leverage other public and private funds for the development and rehabilitation of affordable owner-

occupied and rental housing, including low-income housing tax credits, and funds from state housing finance agencies. The affordable housing financed through the AHF can be made accessible to very low-income persons with rental certificates by underwriting the new supply at rent levels pegged to prevailing local rents for modest apartments.

The Result: A New Department of Housing and Urban Development

The consolidation of programs into broad funds and the devolution of program design and implementation to localities and states would require HUD to dramatically change the way it does business. HUD would continue to collaborate with its community and union partners as this transformation moves forward.

HUD would shift from administering multiple programs to supporting local initiatives, while ensuring that federal funds are spent in ways that are fiscally prudent and adhere to national objectives and goals. The shift from program administration to spending oversight would result in a significant downsizing of the Department. HUD's workforce, about 12,000 today, would be cut to less than 7,500 employees over a five-year period, and the number of field offices would be reduced.

In addition to supporting local initiatives, HUD would reinforce the performance of localities and states by acting as a clearinghouse for information and innovative ideas and a catalyst for the replication of successful local initiatives nationwide.

The following functions will be central to the new way of doing business at HUD:

Performance Measurement and Accountability

HUD programs will incorporate rigorous performance standards and measures to improve program management and assure positive results. Performance measures describe how funds are being used and how people and communities are benefiting.

This approach is being pioneered in Oregon, where state officials are able to negotiate with federal agencies on how funds are used--but then must set goals and achieve results. Performance measurement in HUD programs, and especially in the proposed block grants, will provide the flexibility that local decision-makers need to address local problems. But, it will hold these decision-makers accountable for results.

The emphasis of HUD's performance measurement will be on the cost, quality, timeliness and effectiveness of program activities, not on the extent to which federal rules are being followed, as has often been the case in the

past. HUD will generally not prescribe the means by which programs should be administered, but instead will collect and disseminate information on program results that informs program recipients, Congress and the public on the benefits achieved for the dollars spent.

HUD will hold back a portion of funds to reward exceptional performance, and may reduce funding where local results are not being achieved. HUD will also publish rankings of performance measures for program recipients. These rankings will be used to determine where technical assistance or additional HUD oversight is needed. And, the mere existence of these rankings will create pressure locally to improve performance where it is found lacking.

Financial Accountability

HUD will ensure that taxpayer interests are protected in the administration and expenditure of federal performance-based funds through careful monitoring and will keep the public informed through periodic reports written in clear language.

Clearinghouse

Each community should not have to reinvent the wheel. HUD will play an important role in identifying and disseminating model housing production and community revitalization strategies that can be replicated in other jurisdictions. Information-sharing will be enhanced through conferences, demonstrations, awards for model programs and projects, and through the use of modern technology.

Regulatory Oversight

HUD will continue to provide regulatory oversight in a number of key areas, including civil rights, operation of government-sponsored enterprises, real estate settlement processes, enforcement of lead-based paint standards, manufactured housing, ensuring that federal housing funds are used to create jobs for low-income residents and regulation of interstate land sales.

The Bottom Line

The reinvention initiative described in this section represents the most dramatic changes proposed for federal housing and development policy in the past 20 years. These recommendations for fundamental change are not made lightly; they are made in recognition that the current way in which HUD conducts its business is outmoded and inefficient, and most significantly they are proposed for the purpose of better serving low- and moderate-income people. In the end, making a positive difference in peoples' lives is what matters -- and it should be on that ground that these and other proposals are ultimately judged.

|| Priorities

Strengthening Competitive Cities

Serious problems are weakening America's great urban centers and reducing their potential as engines of growth for the nation's economy.

- Urban manufacturing employment declined 11 percent from 1980 to 1990.
- Abandoned buildings and vacant lots account for up to one-fifth of land use in America's cities today.
- Between 1970 and 1990, poor people became increasingly concentrated in inner cities. According to one measure, concentration of the poor in America's 25 largest metropolitan areas increased 18 percent during this period.
- In America's urban areas, there is one murder every 22 minutes, one forcible rape every five minutes, a robbery every 49 seconds and an aggravated assault every 30 seconds.

Guiding Principles

America's economic health and social stability are inextricably linked with the health and stability of its cities. Our cities continue to be our economic centers as well as our population centers. It is also in and around our cities where educational resources are concentrated, and where Americans find their greatest opportunities for educational, economic and social advancement. For everyone who is willing to work, our cities have always been and continue to be America's most promising gateway to a better life.

It is critical to the future of our nation that we preserve and strengthen our cities as engines of economic adaptation and growth, and as dynamic centers of opportunity for the tens of millions of people who yearn for a better life for themselves and their children.

HUD works to strengthen America's cities by helping city, county and state elected officials and agencies work with business, unions, chambers of commerce, educational institutions, foundations, nonprofit organizations, citizen groups and others to fashion and implement metropolitanwide housing and economic development strategies.

Progress to Date

- HUD is focusing on empowerment zones and enterprise communities to demonstrate that federal agencies can work together in areas that have suffered from years of neglect. In June 1994, communities submitted 292 applications for urban empowerment zones and enterprise communities. In December 1994, six communities were designated as urban empowerment zones, two as supplemental urban empowerment zones and 65 were designated

as enterprise communities. With HUD's help these communities will jump-start revitalization efforts in their most distressed neighborhoods through local partnership initiatives. These initiatives will seek to attract new jobs to these neighborhoods and prepare residents to fill these jobs and move into the nation's economic mainstream.

- HUD increased localities' ability to spur neighborhood retail and industrial development and expand economic opportunity for low-income people by making its Section 108 Loan Guarantee Program easier for local governments to use, especially in conjunction with other HUD programs, such as the Economic Development Initiative and empowerment zones and enterprise communities tax incentives. Localities' use of the Section 108 Loan Guarantee program increased from \$229 million in fiscal 1993 to \$350 million in fiscal 1994.
- HUD allocated \$19 million in Economic Development Initiative grants, which leveraged more than \$250 million in additional economic investment, to create jobs for low-income people.
- Localities have been provided with new tools to remove obstructions that hinder job creation (e.g., land assembly, "brownfields") through expanded technical assistance.
- Institutions of higher learning have been urged to participate in strengthening their communities and regional economies by recognizing, rewarding, and showing examples of university-community partnerships.

Transitions: 1995

HUD consolidated planning, application and reporting requirements for four separate formula-grant programs -- CDBG, HOME, Emergency Shelter Grants and Housing for People with AIDS -- into a single, seamless process. This change, effective in 1995, dramatically reduces paperwork for localities and states, and gives them more flexibility. It also encourages them to forge comprehensive, communitywide and regional action plans that involve community-based groups and individual residents and integrate economic and housing development strategies with strategies for making neighborhoods safer, reducing homelessness, increasing housing mobility, expanding job opportunities through training and education and strengthening families. This new, consolidated planning process will serve as the basis for local and state applications for HUD's new performance-based funds.

HUD will implement the empowerment zones and enterprise communities program, expediting waivers for selected communities and taking other actions to ensure the program's success.

HUD will continue to assist private-sector job creation for low-income persons by allocating up to \$50 million in Economic Development Initiative grants.

1996 and Beyond

Reinvention would consolidate current HUD grants for community economic development into a single Community Opportunity Fund, described earlier in *Accelerating HUD's Reinvention*.

Revitalizing Neighborhoods

Too many neighborhoods in America's communities are cut off from the nation's economic mainstream and falling behind, even as the economy improves.

- Between 1970 and 1990, the percentage of people in America's 100 largest cities living in extreme-poverty neighborhoods increased from 5 percent to 11 percent.
- In the poorest neighborhoods of our nation's largest cities, 40 percent of all male youths and adults between the ages of 16 and 64 are unemployed, compared to 19 percent in other neighborhoods.
- According to a 1991 study by the New York City Department of Consumer Affairs, significantly fewer supermarkets serve poor neighborhoods than middle- and upper-income neighborhoods, a pattern that is duplicated nationwide. Residents of inner-city neighborhoods spend as much as \$400 to \$1,000 annually traveling to distant markets by public transit or taxi.

Guiding Principles

The benefits and opportunities of expanding urban economies must reach all corners of our greater metropolitan areas. The best way to enable all urban residents, including those who live in distressed neighborhoods, to participate in economic expansion is through bottom-up, community-based initiatives.

HUD must support the efforts of local government, community-based nonprofit groups, churches, neighborhood leaders, and community residents to develop and carry out initiatives to develop affordable housing, and promote business and job growth block by block, neighborhood by neighborhood.

Progress to Date

Community Development Block Grant funding increased from \$4 billion in FY 1993 to \$4.6 billion in FY 1995. CDBG supports a wide range of community development activities. Recent CDBG regulations have made it much easier for localities to use CDBG for innovative development activities that create jobs and focus on neighborhood revitalization.

Numerous barriers to effective implementation of the HOME program have been removed, providing both localities and community-based organizations with greater flexibility to use HOME for neighborhood revitalization.

HUD designated 20 innovative community development corporations to receive tax benefits for programs to create jobs and provide training for low-income residents.

HUD awarded \$38 million in Youthbuild grants to help disadvantaged youth learn employment skills through constructing and rehabilitating housing for low-income and homeless people.

The Office of Community Viability was established to empower neighborhood groups to participate in local community decision-making.

HUD invested in the National Community Development Initiative, which uses HUD funds to leverage funding from private foundations for capacity building in community development corporations. Twenty million dollars was invested by HUD and was matched by \$67 million from private foundations and corporations. Communities have been empowered by improving housing production capacity and establishing alliances with foundations, churches, national community organizations, and CDCs.

HUD has given citizens and groups support by creating an innovative software package to provide clear information about how communities spend their money.

Collaboration among foundations, corporations, nonprofit groups, community organizing networks, advocacy organizations, arts and sports organizations, local and state governments, and other federal agencies, has been fostered.

Greater emphasis has been placed on addressing the needs of underserved populations, such as migrant farmworkers, Americans living in the colonias and in rural areas, and Native Americans in tribal communities.

Transitions: 1995

HUD will fully implement job programs, such as the CDBG = Jobs initiative to facilitate creation of jobs for low-income workers.

1996 and Beyond

Participation by community-based organizations would be a critical element under the new performance-based funds.

To ensure the continued, strong participation of community-based groups in housing development, current legally mandated set-asides for such groups as community housing development organizations (“CHDOs”) would be incorporated in the Affordable Housing Fund.

Expanding Homeownership

The dream of homeownership is fading for too many people in America today.

- After increasing steadily for 46 years, the national homeownership rate fell from 65.6 percent in 1980 to 64.6 percent in 1993.
- The homeownership rate for households headed by people under age 35 fell from 44.5 percent in 1980 to 37.6 percent in 1992.
- The homeownership rate for low- and moderate-income households fell from 37 percent in 1979 to 29 percent in 1989.
- The homeownership rates for African Americans and Hispanics are 43 percent and 40 percent, respectively, compared to 70 percent for white households.

Guiding Principles

Owning a home is key to individual economic advancement in America, and homeownership is an important goal for Americans. HUD must do everything it can to help more Americans become homeowners.

New public-private partnerships in the nation's housing sector will result in unprecedented cooperation to boost homeownership to an all-time high in America by the end of this century.

A reinvigorated FHA will reclaim HUD's role in helping American families achieve homeownership, particularly lower-income, minority families and nontraditional buyers locked out of the conventional market. HUD will also look to localities and states to help public housing residents and others make the transition from renters to homeowners through the new performance-based funds.

Progress to Date

Expanding homeownership has been a key goal for this Administration. For two years, HUD has worked steadily to increase opportunities for affordable homeownership for low- and moderate-income working families. Substantial progress has already been made:

FHA insured more than 1.3 million single-family loans in FY 1994, including 450,000 for first-time buyers. FHA's FY 1994 single-family loan volume was the second-highest in its 60-year history.

The upfront premium for Federal Housing Administration (FHA) insured mortgages has been reduced. It is estimated that this change will save homebuyers, on average, \$750 over the life of a mortgage.

- FHA's 34-year-old 203(k) Program, potentially HUD's most effective tool to help people buy and rehabilitate existing homes, has been streamlined, making it much easier for homebuyers, investors and lenders to use. In fiscal 1994, 3,742 new 203(k) loans were insured, an 11 percent increase over the previous year.
- HUD has expanded homeownership opportunities for low- and moderate-income families and strengthened communities by broadening the FHA Single Family Property Disposition Program, under which HUD-owned homes are sold at a discount to nonprofit groups for rehabilitation and resale to eligible buyers. Last year, FHA sold 1,663 properties to 325 nonprofits and localities.
- HUD began allowing government agencies to purchase HUD-owned properties for resale to public safety employees, such as police officers, firefighters and paramedics.
- HUD changed the Real Estate Settlement Procedures Act (RESPA) escrow rule to reduce the upfront costs of homebuying and save homeowners billions of dollars. It is estimated that when this rule change is implemented in April, 1995, it will save homeowners nationwide up to \$2 billion in escrow fees and save homebuyers an average \$250 at closing.
- The Government National Mortgage Association (Ginnie Mae) began a new multiclass securities program, which helps to increase affordable housing opportunities by reducing financial costs for FHA and VA borrowers.

HUD is making FHA more responsive and efficient by better using electronic communication, consolidating processing functions and eliminating duplicative paper-

work. For example, FHA has cut its processing time for single-family loan insurance endorsements from four to five weeks to three to five days. Changes in appraisal rules are expected to reduce the average waiting time for closing on an FHA-insured home mortgage by one to two weeks.

New partnerships are also being developed with mortgage lenders, local and State governments, and housing advocates to increase homeownership opportunities for underserved and unserved populations.

Actions taken by the Administration in its first 24 months have laid a solid foundation for a dramatic increase in homeownership in America by the end of this century. HUD will continue to build on this foundation through program consolidation, restructuring of FHA and expansion and strengthening of public-private partnerships.

Transitions: 1995

The President has directed HUD to develop a strategy to boost the nation's homeownership rate to a record high by the end of this century.

Recognizing that the most powerful engine for homeownership expansion is the private market, HUD is designing a National Homeownership Strategy that forges a new public-private coalition of housing industry leaders, local and state governments, and housing advocates to pursue national homeownership goals, increase financing availability, cut production costs, open housing opportunities to underserved populations, and focus on specific communities as targeted areas for homeownership.

Two homeownership demonstrations to assist low- and moderate-income first-time homebuyers are being implemented. In the first demonstration, HUD will work with public and nonprofit partners to provide downpayment and second mortgage assistance. In the second, HUD funds will serve as a catalyst for large-tract development of affordable housing in designated "homeownership zones."

FHA underwriting guidelines are being modified to increase homeownership opportunities for nontraditional and underserved borrowers. The guidelines will encourage maximum, prudent flexibility and will be sensitive to fair-lending principles.

FHA insurance in underserved markets is being expanded by conducting innovative demonstrations and entering into joint venture partnerships, such as the ones with

Fannie Mae and Freddie Mac, to service more low- and moderate-income people.

HUD is expanding FHA's single family property disposition initiative and increasing the sale of HUD-owned homes to individuals, nonprofit organizations and local governments to promote local homeownership efforts and neighborhood revitalization. A comprehensive housing counseling program that includes extensive outreach to potential home buyers is also being implemented.

1996 And Beyond

Two transition phases will be completed by FY 1998: public housing programs will be consolidated into two accounts; for capital expenditures and operative subsidies; then all direct subsidies will cease.

Expanding Affordable Rental Opportunity

There is a serious shortage of affordable rental housing in many communities today, and high rents are making it hard for working families to get ahead.

- America went from a surplus of 400,000 affordable housing units in 1979 to a shortage of 4.1 million units in 1989.
- The number of families with children and elderly people paying more than half their incomes for rent, or living in substandard housing, increased 50 percent -- from 2.4 million to 3.6 million households -- between 1978 and 1991.
- Approximately 43 percent of very-low-income households paid more than half their income for rent in 1991.

Guiding Principles

Decent, affordable housing is a building block of stable family life and a launching pad for economic advancement. Because many Americans must rent, and because there is a serious shortage of affordable rental housing in America today, we must expand tenant-based rental assistance, preserve existing affordable rental housing and expand the production of quality affordable rental housing.

The centerpiece of HUD's assistance is tenant-based assistance, enabling families to afford rental housing in the private market.

Rental properties owned and operated by private owners and managers under various HUD-FHA mortgage insurance and rent-subsidy programs are a vital affordable-housing asset, which must be improved and maintained.

HUD is placing major emphasis on partnerships with community-based, nonprofit developers, private developers, state and local governments and financial intermediaries to produce quality, affordable rental housing. HUD is working with developers, local governments, and social service providers to ensure that family support services -- training, education, and work opportunities -- are designed into projects to build momentum for self-improvement and self-sufficiency.

Progress to Date

- During the Administration's first two years, HUD has provided 101,900 additional households with five-year rental certificates and vouchers and proposed to merge the two similar programs into a single, more efficient program. In addition, HUD provided emergency, 18-month housing vouchers to 13,000 Southern California households displaced by the Northridge earthquake.

- In FY 1994, more than 1,596 action plans were negotiated with private owners to repair and rehabilitate housing complexes, including conversions of multifamily projects to homeownership.
- HUD closed 98 property sales out of inventory and closed 80 foreclosure sales, drastically reducing an inherited inventory problem that had literally grown out of control. The closings reflect an inventory reduction of 34 percent for the fiscal year. HUD replaced 324 management agents by September 1994 and expects to replace a total of 400 agents. HUD foreclosed on 102 individual owners.
- Risk-sharing agreements have been signed with 33 state and local housing finance agencies, Fannie Mae, Freddie Mac, and the National Cooperative Bank for housing production. As a result, 45,000 affordable homes will be produced.
- HUD has launched the Section 8 Community Investment Demonstration to encourage pension fund investment in multifamily housing production or preservation. HUD awarded \$100 million to six pension funds, selected to participate in a demonstration, that finance affordable housing development nationwide to create 2,500 multifamily units, 1,000 of which will be Section 8 assisted.
- Congress increased HOME funding from \$1.275 billion in FY 1994 to \$1.4 billion in FY 1995, permitting HUD to fund additional units for low-income people. By November, 1994, more than 100,000 units had received commitments under HOME -- 75,500 more units than a year earlier.
- HUD funded 7,665 units (116 projects) of Section 202 Housing for the elderly, totaling \$499 million.

- HUD funded 2,559 units of housing for the disabled under Section 811, totaling \$157.8 million.

Transitions: 1995

In 1995, HUD will continue to draw on existing programs to increase the number of households provided rental assistance, preserve the existing supply of privately-owned subsidized housing and expand the supply of affordable housing.

Assisted-living opportunities for elderly households will be increased through increased production under the Section 232 program.

HUD will implement Phase II of FHA's risk-sharing demonstration, expanding the number of partners and the types of risk-share products.

HUD will implement subsidy layering guidelines to effectively integrate the use of FHA insurance with the federal low-income housing tax credits.

HUD will seek out sources of capital not now invested in multifamily housing opportunities, and identify products, programs and partnerships that will encourage the flow of capital to multifamily housing.

HUD will strengthen enforcement by removing unscrupulous owners and management agents and extensively publicizing HUD's zero-tolerance standards.

The Department will more effectively involve tenants in the control of their housing through increased resident management opportunities, outreach and resident ownership.

HUD will continue aggressive efforts to sell HUD-owned multifamily properties and HUD-held notes.

1996 And Beyond

HUD will begin to rationalize its rental housing assistance structures into three basic components: Housing Certificates for Families and Individuals to provide housing subsidies to low-income households; an Affordable Housing Fund to support development and rehabilitation of affordable housing, and a new, streamlined FHA corporation to spearhead the restructuring of the assisted housing stock and provide products to enhance multifamily rental housing production.

HUD's reinvention will devolve administrative responsibility for housing certificates to local and state governments who could choose entities other than public housing authorities to administer certificates.

Preservation

A new debt restructuring group within the new FHA corporation will be responsible for restructuring, project-by-project, the debt on the nation's portfolio of assisted housing in a process known as "marking-to-market." In many cases the debt will be restructured based on the property's true market value, so HUD can reduce costly rent subsidies and secure the properties' physical and financial health.

FHA's restructuring plan would subject assisted housing projects to competitive market forces, improving their financial management and residents' living conditions.

Housing opportunities for current residents will be assured through a combination of portable certificates, and where appropriate, continuing project-specific use restrictions.

Housing Production

All federal housing development activities will be consolidated in the Affordable Housing Fund. The Fund would provide localities and states with flexible funding for housing production, rehabilitation and homeownership initiatives.

The new FHA will supplement the role of the Affordable Housing Fund as a financing tool for the development of affordable rental housing. The new FHA will increasingly relying on third-party partners to deliver its mortgage insurance and credit enhancement products.

HUD will continue to update multifamily goals for the secondary market lenders, Fannie Mae and Freddie Mac.

Reducing Homelessness

Homelessness is a tragic scar on the face of America.

- More than 7 million people were homeless for at least one night between 1985 and 1990.
- An estimated 600,000 people in America are homeless on any given night.
- In 1993, families with children accounted for 43 percent of the homeless population, up from 32 percent in 1992.
- Half of all homeless people have alcohol and drug-abuse problems.

Guiding Principles

No group of people in America lives in greater desperation than those who are homeless. From the beginning of this Administration it has been understood that a department whose name begins with "housing" must address the needs of people who are unhoused.

HUD must acknowledge the true extent and causes of homelessness in America and the federal government must do its part to help men, women, and children who are homeless move beyond the current, patchwork system of emergency shelters and soup kitchens.

According to *"Priority: Home! The Federal Plan to Break the Cycle of Homelessness,"* there are two broad, sometimes overlapping, categories of problems that cause homelessness: crisis poverty, including devastating changes in the job and housing markets and in families which push people into the streets; and chronic disabilities, such as mental illness, substance abuse, AIDS, tuberculosis, and other health-related disabilities.

In contrast to previous homeless strategies which focused almost entirely on housing as if shelter itself were enough, HUD has promoted a continuum of care approach that the Department believes is necessary to make real, lasting reductions in the number of homeless Americans.

Under the continuum of care approach, HUD is helping communities develop the housing and services necessary to address the root causes of homelessness through prevention efforts, outreach, transitional housing with job training and other services, substance-abuse treatment, supportive housing for people with mental disabilities, and permanent housing options. The goal of a continuum of care is to provide permanent, affordable housing and appropriate services, where needed, so people who are homeless can become self-sufficient. Not every family or individual will need all steps of the continuum, but

communities should develop the full range of services to meet the varying needs of a multifaceted homeless population.

HUD believes nonprofit providers are the key to delivering top-notch housing and services to homeless people. The capacity of local nonprofit agencies to reduce homelessness must be increased by integrating mainstream institutions (e.g., businesses) and resources (e.g., Community Development Block Grants) into local efforts through local homeless boards. It must be further enhanced through federal interagency collaboration, which is a vital element of the President's national plan to reduce homelessness.

Progress to Date

For two years, the Administration has been working to forge a coherent, comprehensive, national approach to homelessness that will make a lasting difference in people's lives and result in real reductions in the number of people who are homeless in America.

In 1993, President Clinton issued an Executive Order to establish a single, coordinated Federal Plan to break the cycle of homelessness. In May 1994, HUD, HHS, VA and 14 other agencies released *"Priority Home! The Federal Plan to Break the Cycle of Homelessness."* These agencies are now implementing this plan, which has received widespread support for its realistic assessment of the problem and its proposals to reduce homelessness.

Federal support for homeless assistance has increased dramatically, enabling HUD to back this new approach to homelessness with real funding muscle. In FY 1994, HUD's budget to assist homeless individuals and families was increased 44 percent, to \$823 million, and in FY 1995, it was further doubled, to \$1.7 billion. Communities throughout the nation are already benefiting from these funding increases proposed by President Clinton and enacted by Congress.

In 1993, Congress approved the Clinton Administration's Innovative Homeless Initiatives Demonstration Program, with funding set at \$100 million. HUD has selected the District of Columbia, Los Angeles, Denver, Miami, the San Francisco Bay Area, and Philadelphia as demonstration areas to develop continuum of care systems. Innovative approaches such as performance-based contracting and a "social contract" spelling out the respective rights and responsibilities of the community and people receiving assistance highlight these demonstration initiatives.

Increased funding has enabled HUD to support hundreds of nonprofit organizations and city homeless programs. A total of 422 grants, awarding more than \$766 million in homeless assistance, were announced by HUD in FY 1994. Grants were approved in all 50 states and Puerto Rico. The awards made in FY 1994 are expected to help an additional 195,000 families and individuals who are currently homeless find shelter or receive essential services.

For the first time, in FY 1994, 100 percent of all Supportive Housing Program grants were awarded to programs incorporating a comprehensive and coordinated continuum of care approach. These HUD-funded programs include emergency, transitional and permanent housing assistance for homeless people, as well as critical mental health, outreach and other supportive services.

HUD gave special attention to the needs of homeless people with particularly acute problems, including people with AIDS and people who live in New York City subway tunnels.

Even as HUD has continued to provide homeless assistance through multiple, existing programs during the Administration's first two years, all current programs have been infused with the new continuum of care philosophy. Funding consolidation will result in acceleration of this trend.

Transitions: 1995

HUD is working with Congress to enact the consolidation of McKinney programs in order to merge six separate programs into a single, flexible grant, allocate funds for the consolidated program through a needs-driven formula to states and cities, and foster comprehensive homeless assistance in America's cities, enabling homeless persons to leave the streets and achieve self-sufficient lives.

Fifteen thousand certificates will be made available to help homeless families and persons with AIDS obtain permanent housing.

HUD is finalizing the regulations implementing the recently enacted Base Closure Redevelopment and Homeless Assistance Act. HUD will work to ensure that redevelopment plans foster growth which addresses economic redevelopment needs, affordable housing needs, and homeless-assistance needs of communities adjoining closed military bases.

HUD is working with communities to help ensure that reducing homelessness is a central part of consolidated plans which communities must prepare to receive CDBG funds.

1996 And Beyond

The consolidated homeless block grant would be kept separate during a three-year transition period, to enable jurisdictions to develop a continuum of care for their homeless populations. The homeless block grant would be consolidated into the new Affordable Housing Fund in fiscal year 1998, and local and state governments would address homelessness in their plans for these funds.

Transforming Public Housing

Most of the nation's 1.4 million public housing units are in good condition and well-run, but too many developments are in bad shape and ill-managed, and have become warehouses for poor people.

- Across the country, 100 local public housing authorities responsible for more than 207,000 units are "troubled."
- Nationwide, there are 86,000 severely distressed public housing units and 100,000 vacancies.
- Average household income for public housing residents declined from 33 percent of area median incomes in 1980 to 17 percent in 1992.
- The proportion of public housing residents whose income was less than 1 percent of area median doubled from 10 percent to 20 percent between 1974 and 1991.

Guiding Principles

Housing should be a starting place for personal and family mobility and self-improvement. Working in partnership with residents and community leaders, HUD can ensure that federally assisted housing and rental assistance promote this goal.

HUD is transforming public housing as it exists today because the current system has failed many residents, especially people living in public housing in some of our larger cities. HUD plans to convert operating subsidies for public housing agencies to rental assistance for residents, to give them the choice to stay where they are or move to apartments in the private rental market.

By giving residents a real choice in housing, HUD will encourage communities to create mixed-income developments where work and education are valued and role models are present to instill positive values. HUD will eliminate the worst examples of public housing, where law-abiding citizens and their families are forced to live in constant fear, virtual prisoners in their own homes.

Just as importantly, HUD will shift the focus, and much of the responsibility for providing affordable housing opportunities to communities. HUD will encourage these communities to place a higher priority on jobs and economic development, training programs, and the creation of partnerships between residents, nonprofit organizations, and affordable housing developers. Those housing authorities that provide quality housing will continue to do so; those which do not will, and should, be eliminated.

Progress to Date

- HUD has broken three decades of gridlock in the demolition of some of the worst public housing in the nation. The wrecking ball has already been taken to Newark, New Jersey's Christopher Columbus, Washington, D.C.'s Fort Dupont, and Denver's North Lincoln projects.
- For the first two years of this Administration, HUD has been working steadily to transform public housing, both through physical improvements and through initiatives to make public housing safer places to live, which offer residents opportunities for education, job training and self-advancement.
- An Office of Distressed and Troubled Housing Recovery was created to turn around specific developments by intervening aggressively with housing authorities in Washington, D.C., Philadelphia, New Orleans, Chicago, Baltimore, Houston, Detroit and Kansas City.
- Under the HOPE VI program, grant agreements totalling \$1.01 billion were executed with 33 severely distressed developments to finance their comprehensive revitalization.
- The Youth Apprenticeship Program was initiated to increase the availability of job training and career opportunities for public and assisted-housing youth. HUD has helped public housing residents take greater leadership roles and build stronger public housing communities through the Tenant Opportu-

nity Program (TOP). For example, this year, HUD has funded \$25 million in TOP grants to 257 residents groups for substance-abuse treatment, health care needs, day care centers, and resident security patrols.

- Housing authorities have been given greater flexibility in setting resident-selection preferences, based on local housing needs and priorities. This makes possible a better mix of incomes among public housing residents, in contrast to previous selection criteria which concentrated the poorest of the poor in public housing.
- HUD has helped public housing residents working to make their communities safer and drug-free by initiating a new interagency effort, Operation Safe Home, to combat violent crime and white collar crime and fraud in public and assisted housing. In 1994, HUD awarded more than \$228 million to public and Indian housing authorities to combat drug abuse and drug-related criminal activity.
- HUD has completely revamped its modernization program. Red tape has been cut and needless bureaucracy has been eliminated, making the program more flexible and easier to use, and increasing PHAs' ability to expedite commitment of billions of dollars already in the modernization pipeline.
- The actions already taken by HUD in the Administration's first two years are the initial steps along a path leading to decent, affordable housing for low-income people that is both an asset to the community and compatible with conventional housing.

Transitions: 1995

HUD is supporting leveraging of public funds to promote mixed-income communities and scattered-site housing by cultivating public/private partnerships with HOPE VI grantees.

HUD is also encouraging the use of Section 8 certificates to help speed the relocation of residents from projects that should be demolished.

HUD will promote free and fair housing choice by providing counseling for recipients of Section 8 certificates who are working or work-ready.

1996 And Beyond

Under HUD's reinvention, at the end of a three-year transition, HUD would get out of the direct funding of public housing by converting public housing subsidies to rental assistance.

The transition would be completed in two steps by fiscal year 1998.

For FY 1996 and 1997, HUD would deregulate all PHAs to make them more effective developers and managers of low-income housing. HUD would aggressively work with local and state governments and other groups to improve more than 100 severely troubled housing authorities. These PHAs would be on probation. HUD then would move the 10 to 15 most troubled housing authorities that cannot be restored through a two-year, receiver-like process, divesting them of properties and management control.

HUD would consolidate all public housing programs into two programs -- a Public Housing Capital Fund and Public Housing Operating Subsidies. Funds would continue to support the formation and operation of resident councils.

Localities and states would have the option to receive all housing funds through Housing Certificates for Families and Individuals.

In FY 1998, no housing authorities would receive funds directly from HUD; they would compete for capital and service funds through a locality or state. Localities and states would have the option of replacing non-performing housing authorities with community-based groups or others.

All former public housing operating subsidies would be converted to certificates.

Opening Housing Markets

Housing discrimination remains a serious problem in America today, restricting the housing choice of millions of people and barring working families from homeownership.

- African American and Hispanic households experience discrimination more than half the time they visit a rental or sales agent in response to an ad in a major newspaper.
- According to a 1992 Boston Federal Reserve Bank study, African Americans are 60 percent more likely to be turned down for home mortgage loans than whites of similar economic status.
- In 1993, 34 percent of African Americans and 25.5 percent of Hispanics were turned down for home loans, compared to 15.4 percent of whites and 14.5 percent of Asians.

Guiding Principles

Housing opportunity must be made a reality for all Americans. The availability of homeownership opportunities and rental housing free from discriminatory impediments are essential to strengthening America's communities. HUD must expand housing choice and eliminate discriminatory housing barriers.

As the statistics in the table above illustrate, there is no question that housing discrimination remains a serious problem in America today.

HUD is taking steps to ensure that housing markets are open to all qualified home seekers, that action is taken at the federal, state and local levels to eliminate discriminatory barriers and that federal fair housing and civil rights laws are vigorously enforced.

Progress to Date

HUD has taken action on a number of fronts to reduce barriers to homeownership caused by unlawful discrimination. Over the past year, HUD has undertaken a review of the Federal Housing Administration underwriting standards and business practices to ensure that policies put in place to protect the financial strength of the FHA fund also promote access to homeownership for minorities and other protected classes. The Department has developed the Mortgage Lending Information System, which permits the user to overlay census data with Home Mortgage Disclosure Act data for monitoring purposes. HUD has also stepped up investigation of fair lending and property insurance complaints.

To provide clarity to the lending industry, and a unified voice on fair lending policy, HUD, the Department of Justice, and the nation's bank regula-

tory agencies have adopted a joint Policy Statement on Discrimination in Lending. The statement provides a vehicle for coordinating federal fair lending policy and resolves a number of issues to assist lenders' efforts to comply with federal fair lending standards. HUD continues to work with these agencies through the Interagency Task Force on Fair Lending to coordinate federal fair lending policy and enforcement efforts.

- In an effort to establish broadly accepted fair lending standards, the Secretary signed best practices agreements with the Mortgage Bankers Association and a number of individual lenders. The agreement with the MBA commits both organizations to work in partnership to eliminate lending discrimination and to expand opportunities for affordable housing.
- HUD has moved to open up rental markets through improved enforcement of the Fair Housing Act. HUD has restructured its fair housing enforcement operation to improve service to individuals who have been subjected to housing discrimination in the private market. Ten enforcement centers have been established throughout the country to more efficiently and effectively enforce Title VIII of the Fair Housing Act.
- To encourage the devolution of fair housing enforcement responsibility to state and local governments, HUD has sought increased funding for the Fair Housing Assistance Program. This program allows HUD to reimburse states and localities which have laws "substantially equivalent" to the federal Fair Housing Act for their enforcement activities.
- Federal efforts to affirmatively further fair housing have proceeded on several fronts. HUD has settled several major lawsuits which involved allegations

that the Department had fostered segregation and housing discrimination through its programs over the years.

- In a historic move, HUD took over the public housing authority in Vidor, Texas because it had failed to protect the civil rights of minorities. In early 1994, federal officials helped four African-American families move to the Vidor development. Twenty-one African-American families are now in residence there.
- HUD reduced the grant processing time for the Fair Housing Initiatives Program (FHIP) from 131 weeks to 36 weeks, resulting in a projected five-year cost savings totaling more than \$1.9 million. This streamlining effort won awards from Vice President Gore and Price Waterhouse.

Transitions: 1995

HUD will reduce housing discrimination through continued enforcement of Title VIII of the Fair Housing Act. HUD will provide increased support to local and state agencies for their enforcement of substantially equivalent fair housing laws and ordinances, and to private fair housing organizations for enforcement, education and outreach activities.

HUD's Title VIII function will be significantly improved in 1995. The intent is to improve the quality of fair housing investigations and to speed the resolution of complaints.

HUD will promote access to homeownership through a voluntary affirmative marketing agreement with the National Association of Homebuilders. This partnership agreement will enlist both organizations in a marketing and outreach effort to promote fair and equal homeownership opportunities for all persons regardless of race, color, religion, sex, handicap, familial status or national origin.

In an effort to obtain broad compliance with fair lending standards, HUD will continue to negotiate best practices agreements with mortgage lenders. Our goal is to sign at least 75 voluntary agreements with mortgage companies.

HUD will promote affordable and fair housing goals for the government sponsored enterprises. Fannie Mae and Freddie Mac will have clear guidance on their obligation to support fair lending objectives through their secondary market operations.

To ensure that localities and states receiving federal housing and community development funds employ them in a way that complies with fair housing, localities and states receiving federal housing and community development funds will conduct their own analyses of the impediments to fair housing in their jurisdictions and develop locally based solutions to these problems.

HUD will lead the President's Cabinet-level Fair Housing Council, which will ensure that federal programs affirmatively further fair housing. The Fair Housing Council is in the process of reviewing key programs in order to implement fair housing goals.

HUD will increase housing choice for persons with disabilities, including those living in public and assisted housing reserved for the elderly. Three thousand Section 8 certificates will be made available through PHAs to enable people with disabilities to access "mainstream" housing which is not exclusively for frail or needy populations.

1996 and Beyond

HUD is moving to consolidate programs and initiate performance-based funding. As a result, localities and states will have greater flexibility to administer federal housing resources. Compliance with federal fair housing and civil rights laws would be one of the considerations used by federal, state, and local entities to govern administration of the new performance-based funds.

Managing for Performance and Results

Inherited management deficiencies limit HUD's capacity to serve people and communities

... HUD's current initiatives are sound and are moving in the right directions. Many of the problems in HUD's management systems, however, cannot be solved easily or quickly. Sustained efforts and concerted management attention ... is essential.

Renewing HUD: A Long-Term Agenda for Effective Performance
National Academy of Public Administration
July 1994

Guiding Principles

HUD has spent two years addressing management deficiencies that accumulated over the past 15 years. HUD must continue to streamline decision-making and improve customer service throughout the country.

HUD must rebuild its capacity to serve communities, and HUD has begun to do this by changing its organizational structure and instituting new systems to assure performance accountability.

HUD must refashion itself as an entrepreneurial, efficient, leaner organization, committed to enhancing productivity through training and investment in technology.

Progress to Date

HUD is transforming itself into a performance-driven organization designed to achieve clear missions, committed to attaining measurable results and managed through a strategic performance system that integrates budget, policy, personnel, and organization to focus on performance.

HUD has turned itself into a "right-side-up" organization, where field offices are the building blocks of the organizational structure and where the regional layer of administration is eliminated. HUD's approach is team-oriented, working in partnership with communities, respectful of the ideas of community providers.

Longstanding deficiencies in resource management practices are already being corrected, and an internal consulting capacity is being developed to help managers implement changes in programs and support reinvention.

HUD has invested in its workforce and improve place conditions through collaboration with the Department's union partners and the established academy to train employees. In accordance with President's Executive Order, HUD signed no partnership agreements with the American Federation of Government Employees and National Federation of Federal Employees unions.

HUD has placed a priority on Equal Employment Opportunity and the Affirmative Employment Program demonstrate respect for diversity.

Nationwide EEO Training for all managers, training for all field office staff have been es

HUD has invested in training for employee and performance by establishing a HUD Training, Individual Development Plan, and part the University of the District of Columbia and University of Maryland.

A Strategic Performance System that tracks and progress has been created.

HUD is developing and implementing a Department-wide framework to correct long-standing deficiencies in resource management practices, and systems set up to protect against fraud, waste and abuse.

Transitions: 1995

HUD will implement a new performance management system that is fully integrated with HUD's strategic operational plans, and that assures management accountability for results. This new system will help reduce costs and improve outcomes of operations.

services; establish a mid-level career development program; and upgrade all aspects of technological infrastructure.

The Office of Administration will be reorganized to support the National Performance Review objectives, to enhance customer service, and to serve as an in-house consultant service for the Department-wide reorganization.

1996 and Beyond

As the Department is restructured, the Office of Administration will continue to refine and develop its support to ensure a high level of customer service.